



## What's Next for the Lisbon Strategy?

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- *An appraisal of the consequences of the Lisbon Strategy leads to two main conclusions. Firstly, there is a need for changing the strategy management mechanism and reinforcing EU financial incentives to further the strategy's objectives. That means a closer engagement of EU redistribution policies – particularly the cohesion policy – in the execution of domestic reform plans. Secondly, strategy objectives should be focused on the priority of building an innovative and knowledge-based economy. That would also involve the need to make necessary adjustments in the cohesion policy.*
- *Poland and other new Member States clearly lag behind the rest of Europe in terms of conducting innovation-directed activities within the framework of the Lisbon Strategy and exploiting structural funds. Therefore, innovation-promoting activities of the Lisbon Strategy and European policies must be intensified particularly in the new Member States. The Polish government should argue in favour of directing the cohesion policy towards achievement of greater pan-European cohesion in the field of economy innovation. There is no doubt that placing the European Institute of Technology and Innovation in Wrocław would greatly contribute to the achievement of these goals.*
- *The new set of Lisbon priorities is increasingly dominated by the need to counteract climate change. With this in mind, efforts must be directed at searching for innovative solutions in the field of energy. They will be targeting the increasing energy needs of the EU economy, take into account environment-protection requirements and reinforce energy security of the European countries, for example by decreasing the volume of foreign supplies of traditional raw materials. These activities may also lower the cost of adapting EU regulations introduced in response to climatic change to the requirements of the new set of Lisbon priorities.*

## Assessment of past achievements of the Lisbon Strategy

The Lisbon Strategy was adopted during the European Union summit in late March 2000. It combines the desired improvement of economic competitiveness with social goals and sustainable economic development. The principal problem of the Lisbon Strategy is that its priorities have been portrayed in very general terms. Many experts consider them dispersed across too many diverse, at times contradictory, objectives. This implies serious consequences. The strategy does not sufficiently focus on building a modern knowledge-based economy in Europe. The goals of the strategy cover employment support, including greater employment flexibility on the labour market, as well as environmental and transportation investments, particularly construction of trans-European lines of transportation. These priorities do not always coincide with innovation-promoting activities. In some cases, the label of expenditures consistent with the objectives of the Lisbon Strategy serves propaganda purposes more than actual construction of an advanced European economy capable of competing with the United States and Japan.

Another problem with the Lisbon Strategy is that it was based on an ineffective management mechanism and, consequently, its implementation was ineffective. It relied on the so-called open coordination method, which in the case of the strategy meant that the European Commission prepared its planning guidelines which were subsequently transposed in all little detail into national reform programs and implemented by the Member States. Consequently, the main burden of selecting substantive activities and implementing them rested on the Member States, whereas the Commission had at its disposal only soft (not legally binding) instruments for charting out general program directions and monitoring their progress in each country.

The low effectiveness of the implementation of the Lisbon Strategy was widely criticized, which brought about its revision and elaboration of its new version: the strategy for growth and employment (2005). In 2007, the three-year period of the new Lisbon Strategy being in effect ended and the subsequent two-year round of its implementation began in 2008. Proposals for adjustments of the activities carried within the framework of the Lisbon Strategy were also made at the recent 2008 spring summit of the European Council. In this connection, several reports were prepared, also by order of the European Commission, which analyse the effectiveness of the strategy reformed in 2005.

The European Commission argues in favour of the effectiveness of the strategy, particularly as concerns the improved employment situation. Since 2005, some 6.5 million new jobs were created in Europe. However, one must bear in mind that the rate of employment among population in the productive age increased in 2006 to 64%

(in 27 countries of the European Union), compared to about 63% in 2004. Therefore, statistically, that increase is relatively low, still distant from the desired rate of 70% assumed for 2010. Considering the current slump in world economy, it is unlikely that such figure can be reached in the desired time frame.

European Commission experts also point at the recent growth of productivity of the European economy (measured according to the *total factor productivity* indicator). This is a substantial change compared to earlier trends. However, even European Commission experts admit that the change in the productivity situation is associated more with seasonal fluctuations of the economic cycle than with structural changes in the European economy. This is why it is difficult to credit the Lisbon Strategy for achievements in this area. Other indicators confirm this diagnosis. For example, the rate of economic growth is clearly slowing down in Europe, which can be ascribed mainly to the economic crisis in the United States. The International Monetary Fund forecasts that economic growth in the Euro zone will not exceed 1.3% in 2008. It is worth recalling that in the period of economic slowdown in the EU, i.e. between 2000 and 2005, which contributed to the adjustment of the Lisbon Strategy, the average rate of growth in the Euro zone amounted to 1.9% of the GDP (per capita). This may mean that the decisive impact on shaping the economic situation in Europe is exerted by cyclical factors and the US financial crisis rather than by structural reforms brought about by the Lisbon Strategy.

The flagship objective of the Lisbon Strategy is to build an innovative economy in Europe, particularly to catch up in this field to the United States and Japan. However, that objective is not being effectively pursued either. Compared to the year 2000 when the Lisbon Strategy was announced, expenditures on scientific research fell in the EU from nearly 2% of the GDP to 1.85% in 2006. Many countries – including the United Kingdom, Germany, France and the Netherlands – reduced their support for scientific research. These trends prevent the European Union from reaching the ambitious target of committing 3% of the GDP to scientific research by 2010.

Moreover, deep differentiations in the development of innovative economy persist between the regions of the European Union. The report on the Seventh Framework Program for Innovation shows persistence of a relatively stable and long-term difference between four groups of states: (1) innovation leaders, (2) innovation followers, (3) moderate innovators and (4) countries catching up. Poland belongs to the last group. The internal cohesion between indicators within these groups and their unchanging make-up indicate that the process of convergence between states in the area of innovation is moving along rather slowly. The huge gap between the first group of innovation leaders and the fourth group of countries catching up will take about 100 years to close.

## Priorities of the renewed Lisbon Strategy

In 2006, the European Council adopted four priority areas of the renewed Lisbon Strategy. At the 2008 spring summit, the Council reiterated those priorities and kept the integrated planning guidelines pertaining to the method of the Member States achieving the objectives of the Lisbon Strategy essentially unchanged. Despite that, the accents on those objectives are shifting as the time goes by. Main priorities of the currently binding Lisbon Strategy and principal trends in planning changes are discussed below.

(1) The European Commission places the priority of **investment in the human capital and modernization of the labour market** before other priorities. This is an area where the situation has improved the most in the past few years. The focus continues to be put on achieving a greater flexibility of the labour market and higher mobility of the labour force on the common market. At the same time, the European policy aims at ensuring a high level of employment security for citizens, for example by making it easier to find a new job and stimulating the demand for jobs. That policy includes proposals of educational activities, occupational training, etc. A certain novelty in 2008 is the declaration of working out a common migration policy and shaping human resources on the EU labour market in relation to that policy. In addition, the discussed priority is to be supplemented by activities pertaining to demographic issues and the inter-cultural dialogue. An interesting aspect of these strategic measures lies in an increasingly visible trend towards shaping a European family policy, described in the Council's document as the European Alliance for Families. Measures related to this area were also introduced in the renewed Lisbon Strategy. Among other things, they cover an easier access to childcare and providing men and women with the possibility of reconciling work with private and family life.

(2) The second priority of the renewed Lisbon Strategy is **freeing the economic potential, particularly of small- and medium-sized enterprises**. Among the most important objectives of that priority was the adoption of the European Charter for Small Enterprises. It is to constitute a framework for regulatory solutions and public policies in the Member States meant to stimulate entrepreneurship. An important objective also rests in the reduction of the administrative burden in individual Member States and at the EU level. Among other things, it was reiterated that volume of EU regulations pertaining to enterprises would be reduced by 25% up to 2012 and procedures associated with European assistance programs would be simplified. There would be continued work on the implementation of the directive on services and modernization of public administrations with a view to improve their handling of enterprises. Moreover, there would be continued effort to further liberalize financial

services and increase the accessibility of credit instruments for small- and medium-sized enterprises.

(3) Only the third place among European Commission proposals presented to the Council is held by the **priority supporting the growth of knowledge and innovation**. The limited effectiveness of the implementation of that objective is possibly responsible for decreased interest in supporting this developmental direction. A novel aspect of that priority rests in increasing the freedom of the flow of knowledge, particularly the flow of scientists between various centres in the European Union. In this connection, a new term of “fifth freedom” was even coined, referring to the free flow of knowledge on the Common Market. European institutions continue to declare their commitment to developing the European research space, create the most advanced research infrastructure and support highly competitive research projects. On the other hand, there is no information on supporting innovation development in states and regions that are lagging behind, despite the fact that one of the principal sore spots of the EU in this area is the huge gap in the development of innovative economy between different parts of united Europe. There is more talk about efforts to integrate patent protection systems and introduce a uniform and affordable European patent. The Council is advocating the speediest possible implementation of the Galileo program and creation of the European Institute of Innovation and Technology. It proposes to create an increased-risk capital market for the most innovative enterprises and a high-speed internet access infrastructure.

(4) The last priority of the re-focused Lisbon Strategy is to turn Europe into an **economy characterized by low carbon dioxide emissions and high energy efficiency, and to counteract climate change**. The main goal of the strategy for the next period is to implement a package of greenhouse gas emission regulations, increase the proportion of energy obtained from renewable resources and create an internal market of electric power. The nucleus of these regulations is the EU Emission Trade System. The European Council and Commission propose higher energy savings also in public administration and when awarding public procurements.

In summing up European Commission proposals and Council decisions pertaining to the execution of the Lisbon Strategy in 2008–2010 it is worth noting the increasing importance of two areas. The first area includes the above-mentioned measures to counter climate change. They focus on ecological issues and energy saving. The Council also takes up other issues, such as those associated with energy security and search for new energy production solutions.

The other important subject of the renewed Lisbon Strategy is the reinforcement of measures directed outwards, both in bilateral and multilateral relations (known as the



external dimension of the renewed Lisbon Strategy). It mainly deals with a better protection of European economic interests, including opening access to markets and public procurements, enforcement of intellectual property rights, protection of the EU market against unfair competition. Another EU objective will be to coordinate international activities aimed at countering climate change, including preparation of a global agreement on climate change (to be signed at a conference in Copenhagen in 2009). Other external EU activities within the Lisbon Strategy will consist in offsetting the consequences of the financial market crisis and in managing immigration.

All these activities are effects of two processes taking place in the European Union. One is the perceivable crisis of liberal ideas and arguments meant to guarantee the success of European economy and its competitiveness on world markets. It is first and foremost a response to increasing competition pressure coming from Asian economies, which are becoming more effective in exploiting the principles of free trade in their rivalry with European businesses and threaten jobs in the European Union. The other is the visibly growing importance of government interventionism in European economic affairs. It shows in the growth of assistance provided by governments to market financial institutions suffering from the crisis and in increasingly strong attempts at working out an industrial policy for the EU (the conclusion of the 2008 EU summit encourages the development of a “new sustainable industrial policy”). That tendency is also expressed in the attempts to reinforce EU’s foreign economic relations in – as the Commission puts it – “the rightful European interest”.

One may ask when studying the priorities of the renewed Lisbon Strategy for 2008–2010 whether they provide a cohesive vision of the growth of an innovative and competitive European economy. Its principal objectives and priorities are the same as since at least 2006, and next to the activities that promote innovative economy there are still those which hardly relate to giving life to the new vision of growth. Increasing importance is given to climatic change and renewable energy, and also to focusing on foreign policy initiatives. It should be noted that Lisbon objectives pertaining to innovative economy were so far pursued very weakly because, among other things, of the improper substantive direction given to the Lisbon Strategy. Certain problems – e.g. wide disproportions in research & development inside the EU – are now wider than ever. It is precisely these disproportions and insufficient involvement of the private sector in scientific research (it is lower than in China, for example) that prevent the development of European innovation. Therefore, there is a want for a more focused approach to solving those problems as that would improve the effectiveness of executing the Lisbon Strategy. Instead, proposals of secondary importance have found their way into the strategy. For example, in the introduction to the European Commission communiqué on the future of the Lisbon Strategy,

President J.M. Barroso cited among five ambitious initiatives the need to limit the number of students who do not graduate from school and to save more energy in public buildings. Some objectives continue to seem self-contradictory. For example, limiting the financial burden imposed on enterprises is advocated on one hand, while expensive energy-related regulations are introduced on the other – and that without indicating any EU instruments which would facilitate the achievement of these initiatives in countries experiencing more problems or having smaller budgetary possibilities.

The persisting fundamental problem with the renewed Lisbon Strategy is the issue of its ineffective implementation instruments. The open coordination method, on which that implementation is still based, has proven ineffective. Both the Commission and the Council recommend more scrupulous methods of coordinating domestic policies and monitoring the course of execution of domestic reform programs. They encourage Member States to continue structural reforms. They also propose a stronger integration of EU policies, including working out a community Lisbon program modelled on domestic reform programs. The cohesion policy provides a certain amount of support to the execution of the strategy.

However, it seems that these instruments are insufficient. There is still a need for binding coordination mechanisms that are more binding, as well as financial incentives that would help the implementation of the strategy, particularly in poorer countries. This is a wider problem of the European Union, whose budget is very low in relation to needs. Moreover, financial incentives are weak instruments when it comes to supporting EU's strategic objectives, and in addition they are strongly encumbered by past decisions. For example, it would be hard to find a connection between the Lisbon Strategy and outlays from the common agricultural policy (approx. 36% of the EU budget for 2007–2013). This is why most expenses associated with pursuing Lisbon goals falls on domestic budgets, which are not always capable of bearing the cost of ambitious community objectives.

Certain EU regulatory instruments meant to serve the implementation of the Lisbon Strategy are also failing. The European patent has not yet been introduced even though that objective is in the books since at least 2000. Plans pertaining to the directive on services have not been fully realized, and the Commission is currently signalling difficulties with a timely implementation of that directive in certain Member States. In turn, other EU regulatory activities (for example those pertaining to environmental protection) that will make a major dent in domestic budgets will further the objectives of the Lisbon Strategy, but may also impede finding public funds to stimulate research & development in some Member States. Other EU regulations impede introduction of financial incentives to secure the growth of research & development in enterprises, which, as stated earlier, is the Achilles' heel of the European economy.

## Conclusions and recommendations

**T**he greatest problem with the Lisbon Strategy is the inefficiency of its implementation as well as the growing gap between the slogans that promote it, which whet the public's appetite, and the deteriorating EU economy. The protracted ineffectiveness of the Lisbon Strategy is leading to a gradual withdrawal of political support for the project. If the project fails, it will be a spectacular defeat both for the strategy and for soft coordination mechanisms in the European Union.

There exist two fundamental factors conditioning reconstruction of the prestige and effectiveness of the Lisbon Strategy. Firstly, its management mechanisms must be changed and there need to be financial incentives from the EU budget injected into execution of the strategy. That would mean a better inclusion of EU redistribution policies – particularly the cohesion policy – into the execution of domestic reform plans. Secondly, Lisbon objectives should be more focused on the priority of building an innovative and knowledge-based economy in Europe. For that, the cohesion policy would also have to be appropriately adjusted.

The Polish position on the future of the cohesion policy points at the need to concentrate it on a limited number of objectives. This is correct, but in the light of what has been said earlier, the cohesion policy must be focused on supporting measures aimed at innovation and growth of a knowledge-based economy. Poland may back the proposal for increasing the scale of investments into R&D (and innovation) by 20% of structural fund allocations. It is a response to the recommendation of the autumn summit of the European Council in Hampton Court (2005), which advised Member States to voluntarily plan that level of expenditures within the structural funds available for innovation purposes.

The cohesion policy has become an important, albeit still insufficient, instrument of achieving the goals of the Lisbon Strategy. However, it should be remembered that not all goals of the strategy serve the purpose of stimulating innovation and, particularly, not all back the growth of an innovative economy. This is why it should be made certain that markers specifying the status of advancement of Lisbon objectives precisely reflect the level of building an innovative economy rather than serving the ends of political marketing.

All available studies clearly indicate that the new Member States and their regions fall behind the rest of Europe in terms of development of an innovative economy and involvement in scientific research. Moreover, they also fall behind West European countries and regions in terms of implementing innovation measures within the Lisbon Strategy and exploiting structural funds. This indicates the need to intensify the activities of the Lisbon Strategy and European policies aimed at promoting innovation particularly in the new Member States.



Equalizing the level of development of an innovative economy in Europe is of strategic importance to the welfare of the entire Europe and not only of the countries lagging behind. That is because it creates an opportunity for permanent development in problem regions. Without such policy, problem regions will require important public assistance, including transfers of social benefits, and will be exposed to various political difficulties associated with the poor economic and social situation. The development of an innovative economy in those regions will improve European competitiveness and clearly redirect the developmental model towards innovation (rather than, for example, cheap labour force or natural resources). Without the support of the cohesion policy it is hard to expect the realization of that developmental direction and improvement in the effectiveness of the execution of the Lisbon Strategy.

Worthy of stressing is the positive experience of the cohesion policy in stimulating the development of a knowledge-based economy. Structural funds are an important method of mobilizing public and private funds to advance innovation measures and, as a rule, are the main source of financing that developmental direction in regions that are developing the slowest. When there are no innovation measures financed by EU resources, domestic policies (regional or sectoral) do not fill that gap. Furthermore, studies clearly show that the execution of innovation activities in regions lagging behind does not cause any difficulties associated with the absorption of EU resources.

Bearing this in mind, the Polish government should be postulating a redirection of the cohesion policy at achieving a greater cohesion on the European scale in the area of development of an innovative economy. Such approach broadens and reinterprets the treaty meaning of that policy in respect of economic, social and territorial cohesion. It is because it puts a stress on innovation, both in terms of building an innovative economy, innovative society, and in terms of an integrated approach to territorial development aimed at introducing innovation in the broad sense of the term.

EU documents disclose a tendency to differentiate between instruments of support of the cohesion policy in regions that are developing the quickest and the slowest. In respect of the quickest developing regions, owing to their higher scientific research potential, suggested additional assistance focuses on the development of technological innovation, support for the development of regional technological clusters and search for greater synergy between these activities and frame programs. However, in relation to the second category, the accent has been placed on the development of non-technological innovation, particularly in the traditional areas of economy associated with agriculture, forestry, tourism, etc. Also proposed is a stronger development of Lisbon investments, which, however, do not contribute enough to the development of an innovative economy.

It seems that such division would in a long term be an insufficient method of assisting development in the weaker countries and regions, particularly in the new Member States. Non-technological investments should not replace but supplement the activities associated with development of new technologies and developmental research. Of course, the main problem in slower developing countries is the low potential for executing more ambitious technological tasks. Therefore, the best solution lies in a double-track approach consisting in assistance provided in those countries and regions simultaneously to the development of non-technological innovation and to gradual building of the R&D potential, which in the future will allow these countries and regions to embark on activities associated with new technologies and developmental research. Consequently, placing the European Institute of Innovation and Technology in Wrocław would constitute EU's long-term investment, which could contribute to shifting the impetus of innovation development to the new Member States.

An innovative approach to the cohesion policy can reinforce it conceptually as well as politically. It can contribute to executing the Lisbon Strategy in a more effective manner and to solving social problems, which is beneficial to the reception of European integration by the population. An example of this is the **search for innovative energy solutions**. On one hand, they will be able to meet the growing energy needs of the EU economy, on the other they will take into account the requirements of environmental protection and, on the third, they will increase energy security of the European states, for example by reducing their dependence on foreign supplies of traditional raw materials. They also may reduce the cost of adapting to the package of EU climate change regulations. That direction of activities is consistent with the evolution of the priorities of the renewed Lisbon Strategy (for 2008–2010). Consequently, it makes sense to take advantage of the EU interest in energy problems and appropriately direct the execution of Lisbon objectives. The inclusion of the cohesion policy in this type of innovation activities (both at the level of searching for new energy technologies and of putting them to use in the economy) lies in the Polish interest. Therefore, measures should be taken to ensure that these activities can be conducted also in Polish regions after 2013.

The policy of the Polish government should also take into account another political trend in the renewed Lisbon Strategy, i.e. a stronger accent placed on outward activities. In this context, a great deal of importance should be given to the attempts of easing trade barriers with Russia. Furthermore, there is a need for an in-depth analysis of other trade interests of the Polish economy and for their more assertive presentation on the European forum.

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